



THOMAS J. VILSACK , GOVERNOR
SALLY J. PEDERSON, LT. GOVERNOR

IOWA DEPARTMENT OF COMMERCE
CREDIT UNION DIVISION
JAMES E. FORNEY
SUPERINTENDENT

INTERPRETIVE BULLETIN

DATE: July 1, 1992

TO: All State Chartered Credit Unions

FROM: James E. Forney
Superintendent of Credit Unions

SUBJECT: Independence in Auditor/Credit Union Relationship

According to guidelines established by the Iowa Division of Banking, an audit, "To Be Acceptable", must be completed by a qualified certified public accountant or firm of such accountants which is independent. Such an audit would not be considered independent if, during the period of professional engagement, or at the time of issuing the report, the CPA or the firm had, among others,:

"Any loan (including overdrafts, cash items, unposted items, drawing against uncollected funds, or any other such items) to or from the enterprise of any officer, director, or principal stockholder thereof. This latter proscription does not apply to the following loans from a financial institution when made under normal lending procedures, terms, and requirements:

- (1) Home mortgages securing the obligor's primary residence and obligations secured by licensed motor vehicles;
- (2) Other secured loans which, in aggregate, do not exceed two and one-half percent of the (financial institution's) capital and surplus, not to exceed one hundred thousand dollars, and are free from classification by (the financial institution) regulatory authorities; and,
- (3) Unsecured lines of credit which, in aggregate, do not exceed ten thousand dollars."

Recently, the American Institute of Certified Public Accountants (AICPA) released an interpretation of an acceptable auditor/financial institution loan relationship. The rule, which became effective January 1, 1992, would ban most loans to auditors from financial institutions which are an audit client. Loans made under rules in effect prior to January 1st were not affected.

According to The CPA Letter, October, 1991:

“Auditors will be permitted to obtain only automobile loans or leases, credit-card and cash-advance balances that do not exceed \$5,000.00 in the aggregate, loans on the cash surrender value of insurance policies and loans collateralized by cash deposits (“passbook loans”) from a financial institution that is also an audit client.”

“Auditors will not be required to dispose of existing loans permitted under previous rules, such as home mortgages, other secured loans, and loans not material to a CPA’s net worth. However, these “grandfathered” loans must be kept current and their terms not renegotiated and, for secured loans other than home mortgages, the value of the collateral must at all times equal or exceed the remaining balance of the loan.”

The Banking Division guidelines, prior to January 1, 1992, provided an acceptable standard for loans made to auditors from a financial institution which was an audit client of the borrower. However, the accountant/accountancy firm must now adhere to the rules for the independence adopted by the American Institute of Certified Public Accountants as stated in the preceding excerpt from The CPA Letter.

Although CPA audits of credit unions are not presently required by Iowa Law, the guidelines established by the Iowa Banking Division and the AICPA Rules provide reasonable standards for an acceptable independent auditor/client relationship in Iowa’s credit unions. **These guidelines are adopted by the Credit Union Division as a minimum standard for acceptability of independence in the professional/business relationship between the certified public accountant/accountancy firm and the credit union client.**

It is acknowledged that conditions other than those mentioned above may contribute to a lack of independence of an audit. It is the responsibility of the credit union’s Board of Directors to ensure an acceptable auditor/client relationship exist, which will provide for an independent audit, before proceeding with any audit examination program, whether such audit is required or voluntary undertaken.

It is the responsibility of the certified public accountant/accountancy firm to disclose any present auditor/client relationship which exists with the credit union, and to resolve any questions as to independence, before proceeding with an audit engagement. Any unusual relationships, which might affect the independence of an audit, should be fully described in the certified public accountant’s report to the credit union’s Board of Directors.